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Study Guidelines

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2020 Study Question

Standing to litigate and effect on remedies

Introduction and scope of this Study Question

1) This Study Question examines what *locus standi*/standing requirements there may be for parties in specific types of intellectual property cases.

2) Four areas are addressed in relation to claimants:

   a) **Co-owners/co-proprietors**: Should all co-owners of an IP right sue together, or should individual co-owners be entitled to make claims of infringement?

   b) **Licensees**: whether licensees should have standing to make a claim of infringement, and if so, should that be open only to exclusive licensees, sole licensees or also non-exclusive licensees and/or sub-licensees. If a licensee has standing to litigate, should the licensee need to prove their standing to litigate by reference to the agreement under which they are a licensee?

   c) **Authorised claimants**: whether persons authorised to make a claim of infringement on behalf of the proprietor of an IP right should be entitled to do so, and if so, whether they should need to prove their standing to litigate by reference to the authorisation under which they are acting?

   d) **Legal interest**: whether a claimant requesting a declaration of invalidity/revocation or non-infringement should have a legal interest in the outcome of the validity/non-infringement challenge, e.g. because they have been threatened with an infringement claim.

3) In relation to defendants, the Study Question will examine who has 'standing' to be the defendant in a claim for the revocation of an IP right. Should the owner, all the co-owners or some co-owners of the IP right be the only possible defendant in such

an action, or may a licensee or any other person having standing to make a claim of infringement of that IP right also be the defendant in a revocation claim?

4) This Study Question is intended to address actions and claims both in courts as well as administrative tribunals (such as patent offices).

5) Further, this Study Question will examine whether the relief available should depend on the standing established by claimants, and in particular whether the relief available should depend on whether the claimant is able to establish that actual loss results *for them* from the infringement.

6) It is not the purpose of this Study Question to examine the standing requirements for the grant of declaratory relief other than for declarations of non-infringement or invalidity. Therefore, the standing requirements for declarations of non-essentiality (*Nokia v Interdigital* [2006] EWCA Civ 1618), *Arrow Generics v Merck* declarations, and any other declarations apart from non-infringement and invalidity are outside the scope of this Study Question.

7) Claims by defendants joining third parties into a case as additional defendants, e.g. where a defendant has an indemnity claim against a third party, are not within the scope of this Study Question. This is a substantial and complex area of law in its own right, which could benefit from more focussed study in the context of a separate Study Question.

Why AIPPI considers this an important area of study

8) Without harmonisation, international licensing and ownership arrangements may inadvertently create rights to litigate for others, which if unchecked can undermine or cut across a right holder's enforcement policy, especially if the IP right in question is successfully revoked in a counterclaim by a defendant.

9) Uncontrolled infringement could dilute the value of an IP right. The right holder will therefore wish to maintain control over enforcement so as to maintain the value of their IP rights. A uniform international regime for standing would assist with the implementation of a global policy for enforcement.

10) Similarly, the right holder may well wish to be included in any actions that affect the scope or subsistence of their IP rights, e.g. revocation counterclaims. Without harmonisation, such involvement may be more difficult to obtain across all jurisdictions.

11) The harmonisation of a claimant's ability to initiate a declaratory action for invalidity or non-infringement would assist with strategies to 'clear the path' internationally and obtain commercial certainty before product launch. If a manufacturer cannot challenge the validity of IP rights or infringement of those rights before serious commitments have been made to launch a product in a market, and those commitments and investments would be put at risk by infringement claims that could be filed years later, the ability of a manufacturer to control its exposure and risk is limited. Similarly, if a manufacturer is able to initiate revocation actions without fear of

any counterclaims of infringement (which would then also put appropriate pressure on claim construction), an IP right holder could be unfairly prejudiced.

12) It would therefore be useful to investigate and consider what is the correct balance between clearing the path, by way of claims for declarations of invalidity and/or non-infringement, and being able to bring counterclaims for infringement.

Relevant treaty provisions

13) Article 16 of TRIPs provides a right, for the "owner" of a registered trade mark, to prevent infringement.

14) Article 26 of TRIPs provides a right, for the "owner" of a protected industrial design to prevent infringement.

15) Article 28 of TRIPs confers certain exclusive rights to prevent infringement on the "owner" of a patent.

16) Under Article 42 of TRIPs, right holders (including federations and associations having standing to assert IP rights) shall be entitled to assert them.

17) Under the European Enforcement Directive (2004/48/EC of 29 April 2004), which is made under the EC Treaty (emphasis added):

> *Article 4*
>
> **Persons entitled to apply for the application of the measures, procedures and remedies**
>
> *Member States shall recognise as persons entitled to seek application of the measures, procedures and remedies referred to in this chapter:*
>
> *(a) the **holders** of intellectual property rights, in accordance with the provisions of the applicable law;*
>
> *(b) all other **persons authorised to use** those rights, in particular licensees, in so far as permitted by and in accordance with the provisions of the applicable law;*
>
> *(c) intellectual property **collective rights-management bodies** which are regularly recognised as having a right to represent holders of intellectual property rights, in so far as permitted by and in accordance with the provisions of the applicable law;*
>
> *(d) **professional defence bodies** which are regularly recognised as having a right to represent holders of intellectual property rights, in so far as permitted by and in accordance with the provisions of the applicable law.*

Discussion

Claimants

18) Historically there has been a reluctance, in common law jurisdictions, to allow claims to be made, in substance, by anyone but a person directly affected. This restriction

has been expressed as the prohibition of "champerty" (financing a lawsuit with an intention to share the proceeds) and "maintenance" (supporting a lawsuit).

19) One of the policy reasons for these restrictions is to avoid frivolous, vexatious and opportunistic claims by litigants with no real interest in the dispute. The policy has been to constrain cases so that claims are only brought by those with a real interest: with standing to litigate.

20) This requirement for an interest is reflected in a requirement in the US that Federal Courts, having power under Article III of the US Constitution, cannot decide cases that result in merely advisory opinions and there is no interest at stake. There must be a true case or controversy before the Court's jurisdiction is engaged.

21) Against this backdrop, IP rights present a challenge. The monopoly or right granted by the IP right can be transferred to others by way of assignment, and parts or aspects of the right can be granted to others by licensing. Similarly, an IP right can be owned by several joint or co-owners. It is very easy to create further direct or indirect interests in the enforcement of IP rights.

22) For example, the financial interest in preventing infringement can – but does not have to be - be transferred by way of licensing. An exclusive licensee, who is the only person authorised to sell products in a specific geographical territory that utilise the IP right in question, may suffer economic loss from sales diverted to an infringer in that territory. An exclusive licensee is thus the claimant with the most direct economic loss, although the proprietor may also have an interest: see *Optical Coating Laboratory Inc v Pilkington PE Ltd* [1993] F.S.R. 310. In contrast, if the IP right is non-exclusively licensed, it may be harder to quantify the loss of the non-exclusive licensee that results from infringement, but that does not mean that there is never any such loss.

23) Common law systems have tended to adopt a simple rule: an exclusive licensee has standing to sue for infringement but generally non-exclusive licensees do not. This rule is less justified economically where an exclusive licensee does not sell products at all, because clearly the economic effect of infringement is not felt if the licensee suffers no loss from infringement. In these situations, it is generally provided that where no direct loss can be proven the exclusive licensee may nonetheless recover reasonable royalties, but of course it could also be argued that where there is no direct loss then there should have been no standing to litigate either, because there was no interest (in the sense of actual loss from infringement that needs to be compensated with damages) in the eventual outcome of the suit. In other words, it could be argued that the mere possibility of recovering reasonable royalties or other relief should not give a claimant (who has suffered no actual loss) standing.

24) It is routinely argued, under some legal systems, that IP right owners who do not suffer irreparable harm, or only suffer harm that can be compensated with damages, from continuing infringement should not be granted an interim or preliminary injunction to prevent infringement before trial. These situations have not, however, been characterised as a lack of standing for the claim itself, but rather as a limitation on the availability of interim relief based on a lack of sufficient interest. The requirement to have legal standing for the party seeking the interim relief is only the initial 'gateway' through which they must pass to make a claim for interim relief, and a further

examination of legal interest is then conducted when considering whether the court should grant the relief sought.

25) In contrast, other legal systems allow the enforcement of IP rights to be delegated to third parties by way of 'simple' authorisation. Their standing to litigate is derived from the authorisation itself, and may only indirectly be founded in the economic interest they may or may not have in the litigation and the loss they may or may not suffer any loss themselves from infringement. The lack of any loss suffered (whether irreparable or not) when seeking interim relief may also not be relevant.

26) For co-owners the situation can be equally complicated, because the economic rights as between co-owners may be regulated separately by contract and it is challenging to have a simple and uniform rule which connects the financial interest in an infringement claim with standing to litigate. For this reason, there is a certain logic in requiring all co-owners to litigate together (or not at all).

27) From a practical perspective, there is however a disadvantage with requiring all co-owners to be joined into a suit. Co-owners can – if they are corporate entities – be acquired, sold, merged, bankrupted and it is routine for changes of ownership and controlling interests to occur. If co-owners are individuals, they may suffer from future disagreements with other co-owners, or they may die and their share of the IP right in question may vest in their estate. All of these situations can complicate a litigation and, in particular, make the running of the case difficult.

28) Thus from a simply pragmatic perspective it would be attractive to give standing to enforce to a single co-owner, but again there are disadvantages. For example, the single co-owner might enforce an IP right only for the IP right to be revoked by the defendant, which then means that the shares of the other co-owners become worthless since they are shares in a revoked, non-existent IP right.

Claims for declarations of invalidity and/or non-infringement

29) Another manifestation of the requirement that courts should not decide hypothetical matters and give advisory opinions – or produce decisions that have no utility – is a requirement in some jurisdictions that only those entities who have been threatened with infringement proceedings or are defendants to an infringement action may file claims for declarations of invalidity and/or non-infringement. The rationale is that without a threatened claim of infringement, a decision on invalidity and/or non-infringement is of academic interest only and it would be a waste of court and party resources to allow such litigation.

30) The timing difficulties resulting from such a limitation can, however, be challenging. An entity launching a new product onto the market might only be sued later on, e.g. if the IP right holder decides to wait a few years after product launch to launch its infringement claim and stays silent until then. In such a case, damages for past infringement accumulate and risks for the manufacturer of the new product increase, with no easy way to 'clear the path' in advance and reduce risk.

31) For these reasons, in certain legal systems it is possible to clear the path well in advance of product launch, for either actual or proposed new products, with claims for

declarations of invalidity, declarations of non-infringement and/or claims for revocation. This has the advantage of producing legal certainty, but at the cost of using the resources of the IP right holder potentially unnecessarily to defend against such actions, especially if the claimant in such actions changes their mind and decides not to proceed with market launch after all. Safeguards, e.g. costs awards, are typically used to control and prevent vexatious litigation to clear the path.

Defendants

32) The validity of an IP right may, depending on the forum and on local requirements, be litigated *inter partes* (in which case the result is binding as between the parties to the case, but there is no revocation and removal from the register of the IP right if it is found invalid) or with *in rem/erga omnes* effect (such that any finding of invalidity results in the revocation of the IP right - binding on the world -and its removal from the register).

33) There may be perfectly valid reasons for there to be an *inter partes* determination of validity that does not involve the IP right owner. For example, in a royalty dispute between an exclusive licensee and a sub-licensee, the validity of the patent as determined on an *inter partes* basis in arbitration may affect the royalty charged.

34) However, where the decision on validity is on an *in rem* basis, there is a more compelling case for a requirement that the owner of the IP right in question should be involved in the case. If not, an adverse decision and the revocation and removal of the IP right from the register would involve the loss of property of the former owner of that IP right, without any say in that loss.

35) The permanent loss of rights from revocation speaks strongly in favour of requiring the inclusion of the IP right owner as a party in any case in which such a result could occur. When a counterclaim for revocation is filed by a defendant to an infringement action brought by an exclusive licensee, this might then mean that the defendant would be obliged to join the IP right owner into the case if they are not already part of the case. Clearly, there are a number of possible ways of handling this situation:

a) The claimant/exclusive licensee could be required to include the IP right owner as a co-claimant;

b) The claimant/exclusive licensee could be required to include the IP right owner as a co-defendant;

c) The defendant could seek to add the IP right owner as a defendant to the counterclaim for revocation.

36) Even these mechanisms may in some cases be insufficient. For example, if the claimant (who asserts they are the owner of an IP right) is found not to be the owner of the IP right, then any revocation counterclaim against the claimant would not be against the true owner of the IP right.

37) These mechanisms are also not guaranteed to be successful. It would seem unjust to prevent a defendant from challenging the validity of an IP right asserted against it by a licensee, simply because the owner of the IP refuses to be joined into the action.

38) A further complication arises from co-ownership: should all, or some co-owners be defendants if the validity of an IP right is challenged? Co-ownership could lead to a number of difficult problems, for example, if a co-owner has ceased to exist, or has transferred their share of the IP right to another unidentified entity.

You are invited to submit a Report addressing the questions below. Please refer to the 'Protocol for the preparation of Reports'.

Questions

I. Current law and practice

Please answer all questions in Part I on the basis of your Group's current law.

1) Who has standing to bring a claim of infringement of an IP right? Please also address whether co-owners and exclusive, non-exclusive and/or sole licensees, or authorised persons may bring a claim of infringement of an IP right.

2) For each class of person identified under 1) above, please explain:

   a) Whether the permission of anyone else is needed, in order to bring the claim?

   b) Whether any other person is required to be joined into the claim, in order to bring the claim?

   c) Whether there are any other conditions that are required to be satisfied, in order to bring the claim?

3) Does the relief available to a claimant for infringement depend on the standing of the claimant, and if so, how?

4) Who could a claim for an *inter partes* declaration of invalidity and/or declaration of non-infringement be brought against (please refer to paragraph 33)?

5) Who could a claim for *in rem* revocation/nullity be brought against (please refer to paragraph 35)?

6) Are there any standing requirements to bring a claim:

   a) under 4) above; and/or

   b) under 5) above.

II. Policy considerations and proposals for improvements of your Group's current law

7) Are there aspects of your Group's current law or practice relating to standing to litigate IP rights that could be improved? If YES, please explain.

8) Should the standing of a person to litigate an IP right depend on whether that person suffers loss caused by the infringement, or has any other interest in the claim?

9) Should it be possible to ‘outsource’ enforcement of IP rights by authorising third parties, who suffer no loss from any infringement, to litigate?

10) If it is possible to ‘outsource’ enforcement of IP rights to third parties, should the quantification of damages in such an outsourced action depend on the loss suffered by the third party claimant, or the loss suffered by the owner of the IP right?

11) Should IP right owners always be joined into a case if there is an *in rem* determination of validity?

12) Should a declaration of non-infringement only be available in relation to an existing product, or should such a declaration also be available for proposed products that have not been made or sold yet?

13) Are there any other policy considerations and/or proposals for improvement to your Group's current law falling within the scope of this Study Question?

III. Proposals for harmonisation

Please consult with relevant in-house / industry members of your Group in responding to Part III.

14) Do you believe that there should be harmonisation in relation to standing to litigate IP rights?

If YES, please respond to the following questions without regard to your Group's current law or practice.

Even if NO, please address the following questions to the extent your Group considers your Group's current law or practice could be improved.

15) Who should have standing to bring a claim of infringement of an IP right, and subject to what (if any) conditions?

16) Should the remedies available, including the quantification of damages, depend on who brings claim of infringement of an IP right, and if so, how?

17) Who could a claim for an *inter partes* declaration of invalidity or a declaration of non-infringement be brought against?

18) Who could a claim for *in rem* revocation/nullity be brought against?

19) What conditions / standing requirements should be satisfied by a claimant before a claim for a declaration of invalidity and/or non-infringement can be brought?

20) Should there be any difference, in terms of requirements for standing, between actions in courts and actions in administrative tribunals (such as patent offices)?

21) Please comment on any additional issues concerning any aspect of standing to litigate IP rights you consider relevant to this Study Question.

22) Please indicate which industry sector views provided by in-house counsel are included in your Group's answers to Part III.